



Letsemeng Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2012

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## General Information

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### Legal form of entity

Local Municipality

Provision of municipal services in terms of the Municipal Systems Act No. 32 of 2000 (MSA) and Municipal Finance Management Act NO. 56 of 2003.

### Municipal Councillors

Mayor/Speaker

Clr. T. I. Reachable

Councillors

Clr. P. Louw

Clr. M. Tsiloana

Clr. V. Mona

Clr. M.A. Mpatshehla

Clr. E.J. Jantjies

Clr. S. Lecoko

Clr. P.M. Dibe

Clr. K.W. Nel

Clr. T. M. Gomojong

Clr. L.J. Greef (Replaced Clr. Z.W. Toehand)

Clr. Z.W. Toehand (Deceased November 2011)

### Grading of local authority

Grade 2

### Accounting Officer

Rev. Itumeleng Edward Poee

### Chief Finance Officer (CFO)

Mr. Lefa Moletsane

### Registered office

Civic Centre

7 Groottrek Street

Koffiefontein

9986

### Business address

Civic Centre

7 Groottrek Street

Koffiefontein

9986

### Postal address

Private Bag X3

Koffiefontein

9986

### Bankers

First National Bank

### Auditors

Auditor-General of South Africa

### Attorneys

Bokwa Attorneys

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Index

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The reports and statements set out below comprise the annual financial statements presented to the Letsemeng Local Municipality's Council:

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## Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of Southern Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Financial Management Grant
MSIG	Municipal Systems Improvement Grant
COGTA	Department of Co-operative Governance & Traditional Affairs

**Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) Reporting Framework which includes the standards of GRAP, any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality's operations depend on a number of sources of revenue ranging from National Government to its own sources and donations. There are no signs or indications that any of these sources will be significantly curtailed. As such, the annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The annual financial statements set out on pages 7 to 77, which have been prepared on the going concern basis, were approved by the Council on and were signed on its behalf by:

## **Letsemeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2012

### **Accounting Officer's Responsibilities and Approval**

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Rev. Itumeleng Edward Pooe  
Accounting Officer

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Audit Committee Report

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We are pleased to present our report for the financial year ended 30 June 2012.

### Audit committee members and attendance

The shared audit committee (at District level) consists of four members listed hereunder and meet on a regular basis per annum as per its approved terms of reference. During the current year five meetings were held.

Name of member	Number of meetings attended
Mr. M.M. Segalo ( Chairman)	5
Mr. V. Vapi	5
Mr K.S. Rapulungoane	4
Mr. S. Majola (Resigned 30/03/2012)	1
Miss T. Molelle (Appointed 01/04/2012)	1

### Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA and Treasury Regulations.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

### The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements (as applicable in municipal environment and adopted by Council), Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, material deficiencies in the system of internal controls or any deviations therefrom are disclosed in their audit report (Other Matters).

### Quality of Periodic Reports

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the municipality during the year under review.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Audit Committee Report

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### Evaluation of annual financial statements

We have:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

We concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

### Internal audit

We are satisfied that the internal audit unit is operating effectively and that it has addressed the risks pertinent to the municipality and its audits. The external audit used internal audit reports for risk identification purposes but did not place reliance on the internal audit reports.

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Chairperson of the Audit Committee

Date: \_\_\_\_\_

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30 June 2012.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in the provision of municipal services in terms of the Municipal Systems Act (MSA) No. 32 of 2000 and Municipal Finance Management Act (MFMA) No. 56 of 2003 and operates principally in South Africa.

The operating results for the year were satisfactory for the following reasons:

Net surplus of the municipality was R 1 026 431 (2011: deficit R 4 427 401). The decrease is attributable to increase in grant income. The municipality received and recognised income on Department of Water affairs grant and Department of Minerals and Energy which grants were not received in the prior year. Further, the municipality's contribution towards total income decreased from 34% to 31%.

#### Proportion of income and loss attributable to various classes of business:

##### 2012

Type of Income	Proportion of Amount contribution	
Property Rates	5 %	5 425 097
Service Charges	23 %	24 542 385
Grants and subsidies	68 %	73 233 037
Other Income	4 %	4 184 074

##### 2011

Type of Income	Proportion of Amount contribution	
Property Rates	5 %	4 247 417
Service Charges	26 %	23 053 266
Grants and subsidies	66 %	59 068 342
Other Income	3 %	2 682 054

### 2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

As indicated to earlier on, the ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continues to procure funding for its on-going operations.

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Officer's Report

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### 4. Accounting Officer's interest in contracts

The Accounting Officer declared his interest in terms of Supply Chain Management Regulations.

### 5. Accounting policies

The annual financial statements were prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP Reporting Framework) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### 6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Rev. Itumeleng Edward Poee	South African

### 7. Corporate governance

#### General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report III. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a regular basis.

#### Management meetings

The accounting officer meets section 56 managers at least on a monthly basis.

#### Internal audit

The municipality has its own internal audit unit. This is in compliance with the Municipal Finance Management Act, 2003.

### 8. Bankers

The municipality's bankers did not change during the year.

### 9. Auditors

Auditor-General of South Africa will continue to audit the books of the municipality, into the foreseeable future.

### 10. Non compliance with applicable legislation

Significant non-compliance with various legislations have been properly disclosed in the notes to the financial statements.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Financial Position

	Note(s)	2012	2011
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	7	1 183 750	1 912 581
Other financial assets	5	57 350	58 373
Other receivables from exchange transactions	8	1 471 157	1 363 888
Other receivables from non-exchange transactions	9	13 044 448	11 533 601
VAT receivable	10	1 642 307	3 278 524
Consumer debtors	11	2 763 582	2 656 216
Money Market Investments	13	14 038 641	5 762 491
Cash and cash equivalents	12	8 085 544	1 932 760
		<b>42 286 779</b>	<b>28 498 434</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	3	719 367 758	724 329 838
Intangible assets	4	246 358	449 056
		<b>719 614 116</b>	<b>724 778 894</b>
<b>Total Assets</b>		<b>761 900 895</b>	<b>753 277 328</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	16	870 155	977 574
Trade and other payables from exchange transactions	20	7 383 020	5 108 833
Consumer deposits	21	1 272 760	642 868
Retirement benefit obligation	6	343 000	307 000
Conditional grants and receipts	22	2 262 135	1 994 996
Provisions	18	196 000	136 000
Deferred revenue	19	240 518	98 784
Interest bearing liability	17	331 145	313 235
		<b>12 898 733</b>	<b>9 579 290</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	16	157 851	732 760
Retirement benefit obligation	6	13 671 000	12 670 000
Provisions	18	28 207 313	25 067 458
Interest bearing liability	17	104 626	435 771
		<b>42 140 790</b>	<b>38 905 989</b>
<b>Total Liabilities</b>		<b>55 039 523</b>	<b>48 485 279</b>
<b>Net Assets</b>		<b>706 861 372</b>	<b>704 792 049</b>
<b>Net Assets</b>			
Reserves			
Fair Value Adjustment Reserve	14	16 232	17 255
Donations and public contributions	50	108 451	130 128
Accumulated surplus		706 736 689	704 644 666
<b>Total Net Assets</b>		<b>706 861 372</b>	<b>704 792 049</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Financial Performance

	Note(s)	2012	2011
<b>Revenue</b>			
Property rates	25	5 350 022	4 247 417
Service charges	23	24 542 385	23 053 266
Rental of facilities and equipment		354 563	295 889
Public contributions and donations		20 000	166 963
Government grants & subsidies	26	73 308 112	59 068 342
Other income	28	802 373	381 346
Interest revenue	29	3 001 002	1 947 077
Dividends revenue	29	5 247	1 723
<b>Total income</b>		<b>107 383 704</b>	<b>89 162 023</b>
<b>Expenditure</b>			
Employee related costs	31	(24 656 010)	(21 780 452)
Remuneration of councillors	32	(2 959 498)	(2 082 006)
Depreciation and amortisation	33	(24 785 753)	(21 835 294)
Impairment of receivables	34	(7 056 286)	(9 464 793)
Finance costs	35	(4 383 133)	(3 997 630)
Bad Debts Written Off		-	(461 203)
Repairs and maintenance		(4 356 383)	(3 144 893)
Bulk purchases	36	(16 969 365)	(14 572 719)
Other Expenses	37	(21 190 845)	(16 250 434)
<b>Total Expenditure</b>		<b>(106 357 273)</b>	<b>(93 589 424)</b>
<b>Surplus (deficit) for the year</b>		<b>1 026 431</b>	<b>(4 427 401)</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Changes in Net Assets

	Fair Value Adjustment Reserve	Government grant reserve	Donations and public contributions	Total reserves	Accumulated surplus	Total net assets
<b>Balance at 01 July 2010</b>	<b>9 237</b>	<b>73 421 501</b>	<b>138 156</b>	<b>73 568 894</b>	<b>74 585 321</b>	<b>148 154 215</b>
Changes in net assets						
Charge for the year	8 018	-	57 519	65 537	(57 519)	8 018
Current Year Additions	-	-	(31 716)	(31 716)	31 716	-
Net income (losses) recognised directly in net assets	8 018	-	25 803	33 821	(25 803)	8 018
Surplus/ (deficit) for the period	-	-	-	-	(4 427 401)	(4 427 401)
Total recognised income and expenses for the period	8 018	-	25 803	33 821	(4 453 204)	(4 419 383)
Prior Year Adjustment	-	-	-	-	561 057 217	561 057 217
Transfer to accumulated surplus	-	(73 421 501)	(163 959)	(73 585 460)	73 585 460	-
Asset Recognition/Purchase	-	-	152 560	152 560	(152 560)	-
Depreciation charge	-	-	(22 432)	(22 432)	22 432	-
Total changes	8 018	(73 421 501)	(8 028)	(73 421 511)	630 059 345	556 637 834
<b>Balance at 01 July 2011</b>	<b>17 255</b>	<b>-</b>	<b>130 128</b>	<b>147 383</b>	<b>704 644 666</b>	<b>704 792 049</b>
Changes in net assets						
Additions for the year	(1 023)	-	-	(1 023)	-	(1 023)
Depreciation charge	-	-	(21 677)	(21 677)	21 677	-
Net income (losses) recognised directly in net assets	(1 023)	-	(21 677)	(22 700)	21 677	(1 023)
Surplus/ (deficit) for the period	-	-	-	-	1 026 431	1 026 431
Total recognised income and expenses for the year	(1 023)	-	(21 677)	(22 700)	1 048 108	1 025 408
Prior year adjustment	-	-	-	-	1 043 915	1 043 915
Total changes	(1 023)	-	(21 677)	(22 700)	2 092 023	2 069 323
<b>Balance at 30 June 2012</b>	<b>16 232</b>	<b>-</b>	<b>108 451</b>	<b>124 683</b>	<b>706 736 689</b>	<b>706 861 372</b>
Note(s)	14	15	50			

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Cash Flow Statement

	Note(s)	2012	2011
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		28 283 718	20 461 720
Grants		67 145 000	60 719 587
Interest income received		3 001 002	1 947 077
Dividends received		5 247	1 723
Other receipts		1 772 635	295 889
		<u>100 207 602</u>	<u>83 425 996</u>
<b>Payments</b>			
Employee costs		(27 534 320)	(23 761 840)
Suppliers		(34 519 849)	(31 329 313)
Finance costs		(4 287 678)	(3 719 764)
		<u>(66 341 847)</u>	<u>(58 810 917)</u>
<b>Net cash flows from operating activities</b>	<b>38</b>	<b><u>33 865 755</u></b>	<b><u>24 615 079</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(18 474 424)	(14 184 706)
Proceeds from sale of property, plant and equipment	3	8 599	-
Purchase of other intangible assets	4	(22 735)	(42 360)
Proceeds from sale of financial assets		1 023	(8 018)
Purchase of money market investments		(8 276 150)	(5 740 360)
<b>Net cash flows from investing activities</b>		<b><u>(26 763 687)</u></b>	<b><u>(19 975 444)</u></b>
<b>Cash flows from financing activities</b>			
Movement in deferred revenue		141 734	9 636
Movement in interest bearing liability		(313 235)	-
Finance lease payments		(777 783)	125 892
<b>Net cash flows from financing activities</b>		<b><u>(949 284)</u></b>	<b><u>135 528</u></b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b><u>6 152 784</u></b>	<b><u>4 775 163</u></b>
Cash and cash equivalents at the beginning of the year		1 932 760	(2 842 403)
<b>Cash and cash equivalents at the end of the year</b>	<b>12</b>	<b><u>8 085 544</u></b>	<b><u>1 932 760</u></b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Significant judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with GRAP requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or the period of the revision and future if the revision affects both current and future periods.

In the process of applying the municipality's policies, management has made the following significant accounting judgements, estimates, assumptions, which have the most significant effect on the amounts recognised in the financial statements and these are consistent with the previous period.

##### **Impairment of trade and other receivables**

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per debtor per service.

##### **Provisions and contingent liabilities**

The provisions raised by the municipality are detailed in note 18. Management's judgement is required on recognising and measuring provisions.

##### **Post-retirement medical aid benefit**

The cost of post-retirement medical aid benefit is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Additional information is disclosed in Note 6.

## Accounting Policies

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### 1.1 Significant judgements and sources of estimation uncertainty (continued)

#### Classification of Investment Property

The municipality has reviewed its property portfolio and determined which items of land and buildings are held to earn rental revenue or for capital appreciation. Land and buildings fulfilling these requirements have been classified as investment property, whilst the remainder of the portfolio have either been classified as property, plant and equipment or inventory depending on management's intention in dealing with these properties.

#### Depreciation and carrying value of items of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgement. Management considers the impact of technology, availability of capital funding, service requirements, and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

### 1.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment or at fair value where assets have been acquired by grant or donation.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the assets are enhanced in excess of the originally assessed standard of performance. If the expenditure only restores the originally assessed standard of performance, it is regarded as repairs and maintenance, and is expensed.

The municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than for motor vehicles.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value, and is recognised in the Statement of Financial Performance.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Assets held under finance leases are depreciated over their useful lives on the same basis as owned assets or, where appropriate, the term of the relevant lease, and are recognised in the Statement of Financial Performance.

Assets under construction are carried at cost. Depreciation of an asset commences when the asset is ready for its intended use.

The depreciation rates are based on the following estimated useful lives:

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.2 Property, plant and equipment (continued)

Item	Estimated useful life (years)
Land and buildings	
• Land	Not applicable
Plant and machinery	5-25
Furniture and fixtures	7-10
Motor vehicles	5-7
• Specialised vehicles	10-15
• Other vehicles	3
Office equipment	3-7
IT equipment	4-5
Computer software	3-5
Infrastructure assets	
• Electricity	10-15
• Roads	3-18
• Water	5-40
Community assets	
• Buildings	30
• Recreational facilities	20 - 30
• Security	3-5
Bins and containers	5
Sewer	5-40
Landfill sites	5-15

#### Impairment of property, plant and equipment

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Finance Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

### 1.3 Heritage assets

A heritage asset is defined as an asset that has cultural, environmental, historical, natural, scientific, technological or artistic significance, and are held and preserved indefinitely for the benefit of present and future generations.

A heritage asset that qualifies for recognition as an asset shall be measured at its cost. Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Heritage assets are not depreciated, since their long economic life and high residual value mean that any depreciation would be immaterial.



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is held at fair value.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

### 1.5 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The municipality must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell

### 1.6 Intangible assets

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Item	Useful life
Computer software	3 years

### 1.7 Financial instruments

#### Classification

Financial instruments are recognised when the municipality becomes party to the contractual provisions of the instrument and are initially measured at fair value plus, in the case of a financial asset or liability, not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

**Accounting Policies**

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**1.7 Financial instruments (continued)****Available-for-sale financial assets**

Available for sale financial assets are non-derivative financial assets that are designated on initial recognition as available-for-sale or any other instruments that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through surplus or deficit. Available-for-sale financial assets are initially measured at fair value plus direct transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale monetary items, are recognised in net assets and presented in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in net assets is transferred to surplus or deficit.

**Trade and other receivables**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit. Interest is charged on overdue amounts.

Amounts receivable within 12 months from the date of reporting are classified as current.

Trade and other receivables are classified as loans and receivables.

**Payables from exchange transactions**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Liabilities for annual leave (accrued leave pay) and annual bonus are recognised as they accrue to employees. Accrual is based on the potential liability of the municipality. Liabilities for goods and services rendered to the municipality before year end are accrued on management's estimate if the invoice or statement have not been issued.

**Accounting Policies**

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**1.7 Financial instruments (continued)****Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments that are readily convertible to a known amount of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of changes in value.

For purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position. Cash and cash equivalents and bank borrowings are subsequently recorded at amortised cost.

**Bank overdraft and borrowings**

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

**Financial liabilities and equity instruments**

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

**Gains and losses**

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

**Derecognition****Financial assets**

Financial assets are recognised when the rights to receive cash flows from the assets have expired or have been transferred and the municipality has transferred substantially all risks and rewards of ownership, or when the enterprise loses control of contractual rights that comprise the assets. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expires.

**Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

## Accounting Policies

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### 1.7 Financial instruments (continued)

#### Impairment of financial assets

At each reporting date, the municipality assesses all financial assets, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the amortised cost of the financial asset at the date that the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available for sale

### 1.8 Inventories

Inventories consists of raw materials, water and consumables. Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is generally determined using the first-in-first-out principle except where stated otherwise.

Some of the inventory items are used for surrogating purposes. However, due to the fact that some of the components of these inventories would have been removed or faulty, the value of the inventories cannot be determined. As such these inventory items have no value attached to them.

Unsold properties are measured at the lower of cost and net realisable value. Cost is primarily determined by reference to the valuation roll or total cost of servicing the land.

#### Water Inventory

Water is measured at the lower of purifying cost and net realisable value, insofar as it is stored and controlled in reservoirs and pipe network at year end.

Readings of water levels are taken at year-end, which is quantified at the above value.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.8 Inventories (continued)

### 1.9 Going concern assumption

The annual financial statements have been prepared on the assumption that the municipality will continue to operate on a going concern basis for at least the next twelve months.

### 1.10 Presentation of currency

These annual financial statements are presented in South African Rand, which is the municipality's functional currency. All financial information has been rounded to the nearest Rand.

### 1.11 Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

### 1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Revenue from exchange transactions includes revenue from trading activities and other services provided.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Accounting Policies**

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**1.12 Revenue from exchange transactions (continued)****Rendering of services**

Revenue from rendering of service is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

**Service Charges**

Service charges relating to distribution of electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates on the consumption history, are made on a monthly basis when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is raised based on the average monthly consumption. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters are read. These adjustments are recognised as revenue in the invoicing period.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property receiving services. Tariffs are determined per category of property and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation services are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council. revenue is recognised on a monthly basis.

**Prepaid Electricity**

Revenue from the sale of electricity prepaid meter cards is recognised based on consumption. The consumption is determined based on the following trend analysis:

- During the winter season (May, June, July and August), the municipality tends to sell more units as the temperature will be generally low.
- The municipality will calculate the average sales for the four months. The resultant average units are compared to the sales for May and August for reasonableness. If the average sales are within a reasonable range or threshold of the May and August units sold, the average is deemed reasonable. If it is not within the reasonable range obtained of the May and August sales, reasons for the significant variances are obtained. If there are exceptional items, these are adjusted for.

## **Accounting Policies**

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### **1.12 Revenue from exchange transactions (continued)**

- The resultant reasonable average consumption rate is used as an estimated consumption of prepaid electricity for June. The actual units sold in June are then compared to the estimated consumption for June.

If the actual quantity sold is more than the estimated consumption for June, prepaid electricity revenue sales for June is based on the estimated consumption for June and the excess is deferred to July of the ensuing year.

If the actual quantity sold in June is less than the estimated consumption for June, prepaid revenue sales for June is based on the actual units sold.

### **Interest, royalties and dividends**

#### **Interest earned and rentals received**

Interest is recognised, in surplus or deficit as it accrues, using the effective interest rate method. Interest earned on unutilised conditional grants is recognised as an unspent conditional grants liability if the grant conditions indicate that interest is payable to the grantor.

Rental Income from operating leases is recognised on a straight line basis over the lease term.

#### **Dividends**

Dividends are recognised on the date that the municipality's right to receive payment has been established.

#### **Royalties**

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreements.

#### **Tariff charges.**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

#### **Housing rental and installments**

Finance income from the sale of housing by way of installment sales agreements or finance leases is recognised as it accrues in surplus or deficit using the effective interest rate.

### **1.13 Revenue from non-exchange transactions**

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions includes rates levied, fines, donations and grants from other spheres of government.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

## Accounting Policies

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### 1.13 Revenue from non-exchange transactions (continued)

Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and, if applicable, there has been compliance with the relevant legal requirements or restrictions.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised on a monthly basis when the taxes are levied as this is regarded to be the date when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

A composite rating system charging different rates tariffs is employed. rebates are granted to certain categories of ratepayers and are deducted from revenue.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Fines

Revenue from the issuing of fines is recognised on receipt.



**Accounting Policies**

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**1.13 Revenue from non-exchange transactions (continued)****Government grants**

## Unconditional grants and receipts

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached stipulations, the grants are recognised as revenue or, if the recognition criteria has been met, as assets in the reporting period in which they are received or receivable.

## Conditional grants and receipts

Revenue from conditional grants is recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

Interest earned on investments is treated in accordance with grant conditions. If the interest is payable to the grantor, it is recognised as a liability and if not, it is recognised as interest earned in the Statement of Financial Performance.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

## Accounting Policies

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### 1.13 Revenue from non-exchange transactions (continued)

#### Donations and contributions

Revenue from donations is recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- any restrictions associated with the donation have been met

Revenue from donations is measured at the fair value of the consideration received or receivable which is the cash amount received or where the donation is in the form of property, plant and equipment, the fair value of the property, plant and equipment received or receivable.

#### Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councilors or officials is virtually certain.

#### Gifts and donations, including goods in kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### 1.14 Consumer Deposits

Consumer deposits are charged when new water and/or electricity accounts are opened. The amounts vary per consumer and are approved by Council as part of the tariff structure.

### 1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

**Accounting Policies**

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**1.15 Provisions and contingencies (continued)**

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Provisions are not recognised for future operating surplus.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

**Restoration and similar liability**

Changes in the measurement of an existing restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model, the related depreciation, based on the estimated useful life of the landfill site, is recognised immediately in surplus or deficit.

If the related asset is measured using the revaluation model, the revaluation surplus is recognised in full against accumulated surplus when the landfill site is rehabilitated. Thus depreciation is recognised in the Statement of Financial Position.

The provision (liability) is periodically discounted or interest is unwound on a yearly basis. The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

**Long Service Awards**

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality.

The municipality's net obligation in respect of long service awards is the amount of future benefit that employees have earned in return for their service in the current and prior periods less amounts paid during the current period. The benefit is discounted to determine its present value less the amount.

**Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by the municipality from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract.

**Reimbursements**

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

**Accounting Policies**

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**1.15 Provisions and contingencies (continued)****Restructuring**

A provision for restructuring is recognised when the municipality has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly.

**1.16 Employee benefits****Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past service or performance and the obligation can be estimated reliably.

Liabilities for short-term employee benefits that are unpaid at year-end are measured at the undiscounted amount that the municipality expects to pay in exchange for that service and had accumulated at the reporting date.

**Defined contribution plans**

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit in the period in which the service is rendered by the relevant employees. prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available

The municipality contributes to various national and provincial administered defined benefit plans on behalf of its qualifying employees. These funds are multi-employer plans and are accounted for as defined contribution plans as there is no consistent and reliable basis available for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. The contributions to fund obligations for the payment of retirement benefits are expensed in the year it becomes payable. These multi-employer plans are actuarially valued annually on a national or provincial level using the projected unit credit method. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

## Accounting Policies

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### 1.16 Employee benefits (continued)

#### Defined benefit plans

The cost of providing benefits is determined using the Projected Unit Credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the municipality's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortised over the expected average remaining working lives of the participating employees.

The municipality provides certain post-retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of all of the medical aid funds with which the municipality is associated, a member is entitled to remain a continued member of the medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. These medical aid funds are classified as defined benefit plans.

The current service cost is recognised as a period expense in the statement of financial performance and is matched to the benefit received during the working life of the employee. the current service cost includes the expense for benefits received by the employee currently in service and the cost of funding the employee when no longer in service.

Where some of the employees are not members of any qualifying medical aid scheme as at reporting date, the municipality accrues 50% of such potential liability. This management estimate is meant to cater for employees who are likely to join the qualifying medical schemes in future but before retirement.

### 1.17 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

**Accounting Policies**

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**1.17 Leases (continued)****Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets leased under operating leases, except for property interests held by the municipality as investment property, are not recognised in the statement of financial position.

**Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

**Finance sale and leaseback**

Where the sale and leaseback results in a finance lease, any excess of sales proceeds over the carrying amount of the asset is not recognised immediately as revenue in the annual financial statements of the seller -lessee. The excess amount is deferred and amortised over the lease term.

**Operating sale and leaseback**

Where the sale and leaseback results in an operating lease the transactions are accounted for as follows:

- If the transaction is concluded at fair value, any gain or loss is recognised immediately.

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### 1.17 Leases (continued)

- If the price is below fair value, any gain or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.
- If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

### 1.18 Value Added Tax

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

### 1.19 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the relevant authority, it is treated as a receivable until it is written off as irrecoverable.

### 1.21 Fruitless and wasteful expenditure

Fruitless expenditure is expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Comparative figures

When the presentation or classification of items in the annual financial statements are amended, comparative amounts are reclassified. The nature and amounts of reclassifications as well as the reasons are disclosed.

## Accounting Policies

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### 1.23 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- If the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that: a) a decrease in the liability is credited to revaluation surplus in equity, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit. b) an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- In the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit. If the revaluation is necessary, all assets of that class are revalued.

### 1.24 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.



## Accounting Policies

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### 1.24 Impairment of non-cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a non-cash generating asset is the present value of the asset's remaining service potential.

**Accounting Policies**

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**1.24 Impairment of non-cash-generating assets (continued)****Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Reversal of an impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.25 Finance Income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in surplus or deficit, using the effective interest method. Dividend income is recognised in surplus or deficit on the date that the municipality's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs are recognised in surplus or deficit using the effective interest method.

### 1.26 Budget information

Letsemeng Local Municipality is subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

The Statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by GRAP 1.

**Notes to the Annual Financial Statements**

2012

2011

**2. New standards and interpretations****2.1 Standards and interpretations issued, but not yet approved**

The following standards expected to be applicable to the municipality have been issued, but are not yet effective.

The GRAP standards below will be applied by the municipality from the effective date determined by the Minister of Finance. The effective dates are currently unknown. Their impact on the financial statements will be discussed and determined when the Minister of Finance determines the effective dates.

**Standard/ Interpretation:**

- GRAP 18 : Segment Reporting
- GRAP 20 : Related Parties
- GRAP 25 : Employee benefits
- GRAP 105: Transfer of functions between entities under common control
- GRAP 106: Transfer of functions between entities not under common control
- GRAP 107: Mergers

**2.2 Standards and interpretations approved in current year**

The following standards and interpretations have been issued by the Accounting Standards Board and approved by the Minister of Finance for the years beginning on or after 01 April 2012. The municipality plans to implement the standards relevant to its operations on or after 1 July 2012 in line with transitional arrangements. The municipality has in some cases referred to them for guidance in developing appropriate accounting policies in accordance with the requirements of Directive 5: Determining the GRAP Reporting Framework.

**Standard/ Interpretation:**

- GRAP 21: Impairment of non-cash- generating assets
- GRAP 23: Revenue from non-exchange transactions (taxes and transfers)
- GRAP 24: Presentation of Budget Information
- GRAP 26: Impairment of cash-generating assets
- GRAP 103: Heritage assets
- GRAP 104: Financial Instruments

**GRAP 23: Revenue from Non-exchange Transactions (Taxes and Transfers)**

The standard becomes effective for the years beginning on or after 1 April 2012 and will be formally adopted by the municipality on or after 1 July 2012. This standard will be applied retrospectively in accordance with GRAP 3: Accounting Policies, changes in accounting estimates and errors. It determines the requirements and provides additional guidance on how to account for revenue from non-exchange transactions. In particular, it requires deferral of revenue when a valid obligation exists. A valid obligation only exists where a grant or transfer is subject to conditions. It further requires that any existing liabilities which arise from grants and transfers that are not subject to conditions should be derecognised and the accumulated surplus or deficit adjusted.

In respect of fines this standard requires that fines be recognised when the receivable meets the criteria to be recognised as an asset.

**Notes to the Annual Financial Statements**

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**2. New standards and interpretations (continued)**

Most of the grants received by the municipality are conditional grants, deferral of revenue is done on conditional grants and revenue is currently only recognised when the conditions associated with the respective grants are met and therefore it is not expected that the standard will have a significant impact on the financial statements on adoption regarding grants.

The municipality has been recognising fines on receipt. The adoption of GRAP 23 entails recognising fines on an accrual basis.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

**GRAP 24: Presentation of Budget Information**

This standard becomes effective for the years beginning on or after 1 April 2012. The standard will be applied prospectively. It determines the specific requirements and provides additional guidance on how to present a comparison between budgeted and actual amounts in the financial statements, as required by GRAP 1. In particular it requires a detailed comparison of actual and budgeted information. This is expected to add significantly to the level of disclosures currently being provided in terms of the interim guidance on minimum budget information from the Accountant General's Office.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

**GRAP 103: Heritage Assets**

The standard becomes effective for the years beginning on or after 1 April 2012. Although the standard will be applied prospectively, entities are granted a period of three years in which to measure the heritage assets. Although entities are allowed three years within which to comply with the initial and subsequent measurement requirements of the standard, entities are required to undertake a physical verification of the heritage assets on hand at 30 June 2012 (in the case of a municipality) to assist in determining the opening balance for the 2012/13 reporting period. It determines requirements for accounting for heritage assets. Heritage assets are defined as assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. The municipality currently recognises all its heritage assets at cost and includes heritage assets with property, plant and equipment. The key impact of GRAP 103 will therefore only be changes in disclosures.

All the municipality's assets were physically verified during the unbundling process for the financial period ending 30 June 2012. The exercise included the verification of heritage assets. The municipality therefore as required by the standard has undertaken a significant amount of work in advance in order to comply with the standard retrospectively and plans also to utilise the transitional provisions granted.

## **Notes to the Annual Financial Statements**

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### **2. New standards and interpretations (continued)**

#### **GRAP 21: Impairment of non-cash-generating assets**

This standard becomes effective for years beginning on or after 1 April 2012 and will therefore be formally adopted by the municipality on or after 1 July 2012. The standard will be applied prospectively. The standard determines the requirements and provides additional guidance on how to impair non-cash-generating assets, being assets that are not held to generate any sort of commercial benefit. In particular, it provides guidance on how to determine an asset's recoverable service amount in the absence of any future cash flows.

The municipality has considered the principles set by this standard in developing its general asset impairment policy and therefore does not expect significant changes in how assets will be accounted for or disclosed when the standard becomes effective.

#### **GRAP 26: Impairment of cash-generating assets**

The standard becomes effective for the financial years beginning on or after 1 April 2012. The standard will be applied prospectively. It determines the requirements and provides additional guidance on how to impair cash-generating assets, being assets that are expected to generate a commercial benefit. The standard requires similar treatment to that currently required by IAS 36, the principles of which have already been incorporated into the accounting policies of the municipality in the prior year. As a result, the impact of this standard becoming effective is expected to be limited.

#### **GRAP 104: Financial Instruments**

The standard will be applied retrospectively. The main difference between GRAP 104 and IAS 39 is the elimination of certain categories of financial assets in GRAP 104. The entities are required to analyse the financial assets recognised as at 30 June 2012 and categorise them using the requirements of GRAP 104, taking note of the carrying values and fair values of the financial assets at that date.

The key principles established by this standard have already been utilised to develop appropriate accounting policies for accounting for financial instruments and therefore it is not expected to have a significant impact on the financial statements.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

2012 2011

#### 3. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and Buildings	172 272 434	(25 067 412)	147 205 022	169 754 388	(23 240 647)	146 513 741
Infrastructure	788 575 302	(223 121 576)	565 453 726	773 304 009	(202 917 056)	570 386 953
Other property, plant and equipment	10 000 548	(3 291 538)	6 709 010	9 324 062	(1 894 918)	7 429 144
<b>Total</b>	<b>970 848 284</b>	<b>(251 480 526)</b>	<b>719 367 758</b>	<b>952 382 459</b>	<b>(228 052 621)</b>	<b>724 329 838</b>

#### Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Under construction	Disposals (cost)	Depreciation	Write-back	Total
Buildings and buildings	146 513 741	2 518 046	-	-	(1 826 765)	-	147 205 022
Infrastructure	570 386 953	11 814 872	3 456 421	-	(20 204 520)	-	565 453 726
Other property, plant and equipment	7 429 144	685 085	-	(8 599)	(1 397 395)	775	6 709 010
	<b>724 329 838</b>	<b>15 018 003</b>	<b>3 456 421</b>	<b>(8 599)</b>	<b>(23 428 680)</b>	<b>775</b>	<b>719 367 758</b>

#### Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Under construction	Depreciation	Total
Land and Buildings	146 470 480	102 000	1 765 362	(1 824 101)	146 513 741
Infrastructure	576 838 774	7 921 445	4 283 681	(18 656 947)	570 386 953
Other property, plant and equipment	8 448 566	112 218	-	(1 131 640)	7 429 144
	<b>731 757 820</b>	<b>8 135 663</b>	<b>6 049 043</b>	<b>(21 612 688)</b>	<b>724 329 838</b>

#### Pledged as security

None of the tangible assets were pledged as security during the current and previous year.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

2012 2011

### 4. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	694 396	(448 038)	246 358	671 661	(222 605)	449 056

#### Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software, other	449 056	22 735	(225 433)	246 358

#### Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	629 301	42 360	(222 605)	449 056

#### Pledged as security

None of the intangible assets were pledged as security during the current and previous year.

### 5. Other financial assets

#### Available-for-sale

Unlisted shares	57 350	58 373
Terms and conditions		

#### Current assets

Available-for-sale	57 350	58 373
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#### Fair value information

This comprises of a non-controlling interest of 3,600 shares Senwes Limited and 4,990 shares Senwes Beleggings Limited, which are recognised at fair value. The shares are valued as per valuation obtained from the Senwes Transfer Secretaries as at 30 June 2012. The share price values were R9,00 (2011: R9,70) and R5,00 (2011: R4,70) respectively.



**Notes to the Annual Financial Statements**

2012

2011

**6. Employee benefit obligations****Defined benefit plan**

The following are the defined benefit plans that employees of the municipality belong to:

- SALA Pension Fund
- Free State Municipal Provident Fund
- Free State Municipal Pension Fund
- SAMWU Provident fund
- Metropolitan Pension Fund

These are not treated as defined benefit plans as defined by IAS 19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 paragraph 30 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

In terms of contributions to the fund, the employer and employee contributions are as follows:

- Free State Municipal Provident Fund - Employee: 4.5%, Council: 18.07%
- South African Local Authorities (SALA) Pension Fund - Employer: 8.6%, Council: 20.78%
- Free State Municipal Fund - Employee: 8.5%, Council: 18.07%
- Metropolitan Pension Fund - Employee: 8.6%, Council 18.06%
- South African Municipal Workers Union (SAMWU) - Employee: 8.6%, Council 18.6%

An amount of R2,299,843 (2011: R1,662,593) was contributed by Council in respect of Councillors and employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.

**Post retirement medical aid plan**

The municipality operates a funded post-employment health care plans for qualifying employees. employees of the municipality are members of Bonitas, Keyhealth, Samwumed and Hosmed medical schemes.

The municipality is committed to pay 60% of the members' post -employment medical scheme contributions up to an amount that is currently capped at R3 092.55 per month. Under the plan, dependants of employees are entitled to continued membership of their Medical Aid Scheme upon the death of the primary member. No other post-retirement benefits are provided to these employees. As at the Statement of financial position date, the members of the medical aid entitled to the post employment medical scheme subsidy were 31-in-service members and 14 pensioners.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by D.T Mureriwa, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the Projected Unit Credit Method.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

2012 2011

### 6. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(14 014 000)	(12 977 000)
Non-current liabilities	(13 671 000)	(12 670 000)
Current liabilities	(343 000)	(307 000)
	<b>(14 014 000)</b>	<b>(12 977 000)</b>

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	12 977 000	11 503 000
Benefits paid	(307 000)	(284 000)
Net expense recognised in the statement of financial performance	1 344 000	1 758 000
	<b>14 014 000</b>	<b>12 977 000</b>

#### Net expense recognised in the statement of financial performance

Current service cost	803 000	736 000
Interest cost and current service cost	1 154 000	1 022 000
Actuarial (gains) losses	(613 000)	-
	<b>1 344 000</b>	<b>1 758 000</b>

#### Key assumptions used

The principal assumptions used for the purposes of the actuarial valuation on 30 June 2012 were as follows:

Discount rates used	8.25 %	9.00 %
Expected health care cost inflation	6.75 %	8.00 %
Net discount rate used	1.41 %	0.93 %
Consumer price inflation	6.25 %	6.25 %
Expected increase in salaries	6.90 %	7.25 %

#### Plan Assets

The municipality does not have assets set aside for post employment medical aid funding that qualify as plan assets in terms of the requirements of IAS 19. As such no value has been ascribed to the fair value of plan assets.

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

	2012	2011
<b>7. Inventories</b>		
Maintenance materials	1 161 538	1 878 426
Water	22 212	34 155
	<b>1 183 750</b>	<b>1 912 581</b>
<b>7.1 Non - Financial information - Quantities of Water (mega litres)</b>		
Koffiefontein (4 tanks)	5 134	2 880
Petrusburg (4 tanks)	1 430	1 000
Jacobsdal (5 tanks)	15 996	10 791
Luckhoff (3 tanks)	1 249	887
Oppermans (2 tanks)	1 857	74
	<b>25 666</b>	<b>15 632</b>
Water inventory has been calculated to include purified water in the pipe network within the jurisdiction of Letsemeng Local Municipality.		
<b>Inventory pledged as security</b>		
No inventory was pledged as security during the current and previous financial period.		
<b>8. Other receivables from exchange transactions</b>		
Deposits	1 151 387	1 100 739
Other receivables	886 287	680 667
Prepaid expenses	33 439	76 630
Less Provision for Bad Debts	(599 956)	(494 148)
	<b>1 471 157</b>	<b>1 363 888</b>
<b>9. Trade and Other receivables from non-exchange transactions</b>		
Property rates	5 933 013	3 992 306
Grants receivable	12 633 250	11 303 000
Provision for bad debts	(5 521 815)	(3 761 705)
	<b>13 044 448</b>	<b>11 533 601</b>

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

	2012	2011
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#### 9. Trade and Other receivables from non-exchange transactions (continued)

##### Trade and Other receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2012, R 411 198 (2011: R 230 600) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	254 062	156 516
2 months past due	105 224	48 394
3 months past due	51 912	25 690

##### Trade and Other receivables from non-exchange transactions impaired

As of 30 June 2012, other receivables from non-exchange transactions of R 5 521 185 (2011: R 4 499 588) were impaired and provided for.

The ageing of these loans is as follows:

Up to 3 months	631 290	1 303 948
Over 3 months	4 890 525	3 195 640

#### 10. VAT receivable

VAT receivable	1 642 307	3 278 524
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All VAT returns have been submitted by the due date throughout the year.

#### 11. Trade Receivables from exchange transactions

##### Gross balances

Electricity	1 913 380	1 656 824
Water	9 503 459	6 436 025
Sewerage	5 475 515	4 482 777
Refuse	5 245 566	4 264 560
	<b>22 137 920</b>	<b>16 840 186</b>

##### Less: Provision for debt impairment

Electricity	(926 125)	(689 446)
Water	(8 839 723)	(5 771 391)
Sewerage	(4 905 245)	(3 962 291)
Refuse	(4 703 245)	(3 760 842)
	<b>(19 374 338)</b>	<b>(14 183 970)</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

	2012	2011
<b>11. Trade Receivables from exchange transactions (continued)</b>		
<b>Net balance</b>		
Electricity	987 255	967 378
Water	663 736	664 634
Sewerage	570 270	520 486
Refuse	542 321	503 718
	<b>2 763 582</b>	<b>2 656 216</b>
<b>Electricity</b>		
Current (0 -30 days)	806 947	829 698
31 - 60 days	107 677	101 424
61 - 90 days	72 631	36 256
	<b>987 255</b>	<b>967 378</b>
<b>Water</b>		
Current (0 -30 days)	560 146	549 306
31 - 60 days	60 749	72 609
61 - 90 days	42 841	42 719
	<b>663 736</b>	<b>664 634</b>
<b>Sewerage</b>		
Current (0 -30 days)	496 926	463 776
31 - 60 days	49 374	39 354
61 - 90 days	23 970	17 356
	<b>570 270</b>	<b>520 486</b>
<b>Refuse</b>		
Current (0 -30 days)	478 397	446 415
31 - 60 days	41 920	40 454
61 - 90 days	22 004	16 849
	<b>542 321</b>	<b>503 718</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

	2012	2011
<b>11. Trade Receivables from exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers/Households</b>		
Current (0 -30 days)	2 255 445	1 966 726
31 - 60 days	634 577	644 289
61 - 90 days	585 002	576 577
91 - 120 days	15 973 148	10 897 843
	<b>19 448 172</b>	<b>14 085 435</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	655 156	623 417
31 - 60 days	258 034	242 219
61 - 90 days	218 552	197 806
91 - 120 days	6 490 464	5 153 719
	<b>7 622 206</b>	<b>6 217 161</b>
<b>National and provincial government</b>		
Current (0 -30 days)	289 233	190 424
31 - 60 days	171 019	88 657
61 - 90 days	126 667	43 156
91 - 120 days	508 134	215 182
	<b>1 095 053</b>	<b>537 419</b>
<b>Total</b>		
Current (0 -30 days)	3 228 348	2 400 132
31 - 60 days	727 678	717 459
61 - 90 days	658 033	594 876
91 - 120 days	835 712	517 081
121 - 150 days	731 877	513 488
> 150 days	15 956 272	12 097 150
	22 137 920	16 840 186
Less: Provision for debt impairment	(19 374 338)	(14 183 970)
	<b>2 763 582</b>	<b>2 656 216</b>
<b>Less: Provision for debt impairment</b>		
Current (0 -30 days)	(885 932)	(645 496)
31 - 60 days	(467 959)	(463 619)
61 - 90 days	(496 586)	(481 703)
91 - 120 days	(835 712)	(517 081)
>121 days	(16 688 149)	(12 076 071)
	<b>(19 374 338)</b>	<b>(14 183 970)</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

	2012	2011
<b>11. Trade Receivables from exchange transactions (continued)</b>		
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	(14 183 970)	(7 041 143)
(Increase)/Reversal of provision	(5 190 368)	(7 142 827)
	<b>(19 374 338)</b>	<b>(14 183 970)</b>
<b>Consumer debtors pledged as security</b>		
No consumer debtors were pledged as security for any facilities.		
None of the financial assets that are fully performing have been renegotiated in the last year.		
<b>Consumer debtors past due but not impaired</b>		
Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2012, R 2 194 058 (2011: R 2 121 651) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	1 772 892	1 754 636
2 months past due	259 719	253 840
3 months past due	161 447	113 175
<b>Consumer debtors impaired</b>		
As of 30 June 2012, consumer debtors of R 19 374 338 (2011: R 14 183 970) were impaired and provided for.		
The ageing of these loans is as follows:		
Up to 3 months	1 850 477	1 590 818
Over 3 months	17 523 861	12 593 152
<b>12. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	575	575
Bank balances	8 084 969	1 932 185
	<b>8 085 544</b>	<b>1 932 760</b>
The total amount of undrawn facilities available for future operating activities and commitments	2 000 000	2 000 000

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

	2012	2011
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### 12. Cash and cash equivalents (continued)

#### Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for the overdraft facility (See Note 13) 1 670 000 1 670 000

An investment account was opened, ceded and pledged as security for the duration of overdraft facility which expires on 13/05/2013

The investment balance as at 30 June 2012 is as follows:

#### Movement during the year

Opening balance	1 745 133	-
Capital amount invested	-	1 670 000
Interest earned and capitalised	80 623	75 133
	<b>1 825 756</b>	<b>1 745 133</b>

#### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
FNB BANK - Account Type - Current Number 527115689918	5 091 164	1 935 971	(154 989)	8 088 418	(1 932 185)	(2 826 853)
ABSA BANK- Account type- Current Number 40-4803-4774	3 410 711	-	-	-	-	-
STANDARD BANK - Account Type - Investment Number 248467824-008	6 157 130	-	-	6 157 130	-	-
STANDARD BANK - Account Type - Investment account number 248467824-010	6 056 083	-	-	6 056 083	-	-
STANDARD BANK - Account type - Investment account number 551151119	-	22 254	20 685	-	22 131	20 685
Petty Cash Balances	-	-	-	-	575	694
<b>Total</b>	<b>20 715 088</b>	<b>1 958 225</b>	<b>(134 304)</b>	<b>20 301 631</b>	<b>(1 909 479)</b>	<b>(2 805 474)</b>

The municipality maintains one cashbook for its primary bank account with First National Bank and the ABSA bank account which was opened in the current year.



## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

	2012	2011
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#### 13. Money Market Investments

These are money market instruments placed with local institutions. Average interest rates for the year was 5.61% (2011: 5.48%).

R1 670 000 of the investment balances was used as security for the overdraft facility of R2 000 000, which expires on 13/05/2013. See note on cash and cash equivalents.

##### Money Market Investments

FNB Account Number: 62273244849	1 825 756	1 745 132
FNB Account Number: 74307481750	-	4 017 359
Standard Bank Account Number: 248467824-008	6 157 130	-
Standard Bank Account Number: 248467824-010	6 056 083	-
	<b>14 038 969</b>	<b>5 762 491</b>

#### 14. Fair value adjustment reserve

This relates to changes in the value of shares available-for-sale (see note 6 )

Opening Balance	17 255	9 237
Current Year Charge	(1 023)	8 018
	<b>16 232</b>	<b>17 255</b>

#### 15. Government grant reserve

Opening Balance	-	73 421 501
Write-off to accumulated surplus	-	(73 421 501)
	<b>-</b>	<b>-</b>

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

	2012	2011
<b>16. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	927 925	926 016
- in second to fifth year inclusive	162 622	988 661
	1 090 547	1 914 677
less: future finance charges	(62 541)	(204 343)
<b>Present value of minimum lease payments</b>	<b>1 028 006</b>	<b>1 710 334</b>
<b>Present value of minimum lease payments due</b>		
- within one year	870 155	775 727
- in second to fifth year inclusive	157 851	934 607
	<b>1 028 006</b>	<b>1 710 334</b>
Non-current liabilities	157 851	732 760
Current liabilities	870 155	977 574
	<b>1 028 006</b>	<b>1 710 334</b>

It is municipality policy to lease certain office equipment, security and communication equipment under finance leases.

The average lease term was 2-3 years and the average effective borrowing rate was 9% (2011: 9%).

Interest rates are linked to prime at the contract date. Fintech lease escalate at 15% p.a , Multitech leases and Bytes/Xerox leases has 0% escalation. These would include additional charges for variable costs based on the number of copies printed by the municipality in an given month. .

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

### 17. Interest bearing liability

Non current liability	104 626	435 771
Current liability	331 145	313 235
	<b>435 771</b>	<b>749 006</b>

This relates to embedded loans advanced towards the installation of the municipality's communication and access control equipment. The loans bears an average interest of 9.5% (2011: 9.5%) per annum. The loan is secured by the related assets included in note 3.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

	2012	2011
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### 18. Provisions

#### Reconciliation of provisions - 2012

	Opening Balance	Utilised during the year	Actuarial (gains)/losses	Service cost and Interest	Unwound interest	Total
Environmental rehabilitation	24 140 458	-	-	-	2 896 855	27 037 313
Long Service Awards Provision	1 063 000	(136 085)	24 085	415 000	-	1 366 000
	<b>25 203 458</b>	<b>(136 085)</b>	<b>24 085</b>	<b>415 000</b>	<b>2 896 855</b>	<b>28 403 313</b>

#### Reconciliation of provisions - 2011

	Opening Balance	Utilised during the year	Service cost and interest cost	Unwound interest	Total
Environmental rehabilitation	21 553 980	-	-	2 586 478	24 140 458
Long Service Awards	708 000	(111 000)	466 000	-	1 063 000
	<b>22 261 980</b>	<b>(111 000)</b>	<b>466 000</b>	<b>2 586 478</b>	<b>25 203 458</b>

Non-current liabilities	28 207 313	25 067 458
Current liabilities	196 000	136 000
	<b>28 403 313</b>	<b>25 203 458</b>

The Municipality operates five disposal sites. Based on the engineers report and estimate costs (Mr A. Troskie of Bovicon Consulting Engineers cc), three of the municipality's five sites namely Koffiefontein, Luckhoff and Oppermansgronde do not meet all the minimum registration and operating requirements as prescribed by the National Environmental Conservation Act (Act No.73 of 1989). These sites will need to be closed and new sites be identified and opened. The remaining two, namely Petrusburg and Jacobsdal mainly need upgrading as the existing sites meet the regulatory requirements. In lieu of the foregoing, the provision of R4 048 000 is based on the assumption that these sites and the other two will be closed and upgraded respectively, in short to medium term, once all the relevant legal and other processes are completed. For more information relating to the assumptions made, refer to note

#### Long Service Awards

The actuarial valuation of the long service bonus awards accrued liability was carried out by D.T. Mureriwa, Fellow of the Institute of Actuaries.

The long service bonus awards consists of an obligation to pay out a bonus in the year of the employee attaining the required service. The obligation presents a liability to Letsemeng Local Municipality and the value is represented by the present value of the total long service bonus awards expected to become payable under Letsemeng's current policy.

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

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	2012	2011
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#### 18. Provisions (continued)

The municipality offers bonuses for every 5 years of completed service from 5 years to 45 years.

Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed

The portion of the bonus that is a percentage of annual salary is awarded within the month following the employee attaining the qualifying completed years of service.

##### Movement for the year

Opening accrued liability	1 063 000	708 000
Service cost	311 000	353 000
Interest cost	104 000	113 000
Bonuses paid	(112 000)	(111 000)
	<b>1 366 000</b>	<b>1 063 000</b>

Assumptions made include discount rate of 8.25% (2011: 8.50%), Salary increase rate of 6.90% (2011: 6.90%) and net discount rate of 1.50% (2011:1.25%).

Other assumptions included a mortality of SA85-90 and a normal retirement age of 63

#### 19. Deferred revenue

##### Reconciliation of movement during the period

Balance at beginning of period	98 784	89 148
Additions during the year	240 518	98 784
Recognised in the Statement of Financial Performance	(98 784)	(89 148)
	<b>240 518</b>	<b>98 784</b>

##### Balance at end of period

Transferred to current liabilities	(240 518)	(98 784)
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The deferred revenue arises in respect of a portion of prepaid electricity sold during the year but not consumed during the current financial period.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

	2012	2011
<b>20. Trade and other payables from exchange transactions</b>		
Trade payables	4 984 401	2 941 304
Other payables	207 516	335 123
Deposits	2 991	683
Ambulance related services	21 731	21 731
Accumulated leave pay in excess of 72 days	288 552	15 042
Accumulated leave pay	1 454 275	1 374 569
Accrued bonus	423 554	420 381
	<b>7 383 020</b>	<b>5 108 833</b>
<b>21. Consumer deposits</b>		
Electricity	363 713	302 886
Water	909 047	339 982
	<b>1 272 760</b>	<b>642 868</b>
<b>22. Conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Road Transport Grant	1 494 430	1 994 996
Department of Water Affairs	767 705	-
	<b>2 262 135</b>	<b>1 994 996</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	1 994 996	-
Received during the year	27 033 000	19 282 554
Income recognition during the year	(26 765 861)	(17 287 558)
	<b>2 262 135</b>	<b>1 994 996</b>

See note for reconciliation of grants from National/Provincial Government as well as their purpose.

These amounts are invested with one of the local banks, together with the municipality's excess cash. See note 14.

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

	2012	2011
<b>23. Service charges</b>		
Sale of electricity	14 515 520	13 349 429
Sale of water	5 302 075	5 050 993
Sewerage and sanitation charges	2 466 487	2 417 975
Refuse removal	2 258 303	2 234 869
	<b>24 542 385</b>	<b>23 053 266</b>
<b>24. Rental of facilities and equipment</b>		
<b>Premises</b>		
Premises	331 100	251 896
Venue hire	17 713	33 100
	<b>348 813</b>	<b>284 996</b>
<b>Facilities and equipment</b>		
Rental of equipment	5 750	10 893
	<b>354 563</b>	<b>295 889</b>
<b>25. Property rates</b>		
<b>Rates received</b>		
Residential	2 289 853	1 490 111
Commercial	789 095	710 999
State	144 139	129 874
Small holdings and farms	2 126 935	1 916 433
	<b>5 350 022</b>	<b>4 247 417</b>

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

	2012	2011
<b>25. Property rates (continued)</b>		
<b>Valuations</b>		
Residential	341 471	326 489
Commercial	73 539	68 735
State	123 879	127 676
Municipal	36 978	40 419
Small holdings and farms	4 594	3 962
Agriculture	1 492 712	1 367 876
Other	195 778	217 290
	<b>2 268 951</b>	<b>2 152 447</b>

Valuations on which property rates are based are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Various rates are applied to property valuations to determine assessment rates. Rebate of 2% is applied to residential, 30% is applied to state property owners, 0% on commercial property and 100% on municipal property. Rates are levied on a monthly basis on property owners.

The new general valuation will be implemented on 01 July 2013.

### 26. Government grants and subsidies

Equitable share	46 542 250	41 780 784
Expanded Public Works Programme	389 000	-
Department of Minerals and Energy	594 000	-
Municipal Systems Improvement Grant (MSIG)	790 000	750 000
Financial Management Grant	1 450 000	1 200 000
Police Road Transport	500 567	505 004
Department of Water Affairs	4 832 295	-
Municipal Infrastructure Grant (MIG)	18 210 000	12 718 000
DBSA Assistance	-	2 114 554
	<b>73 308 112</b>	<b>59 068 342</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 187 (2011: R 173), which is funded from the grant.

Only R33,604,000 was transferred (R11,608,000 was delayed until March 2012). The delay was caused by the unspent portion of the MSIG which was incorrectly disclosed as unspent as at 30 June 2011.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

	2012	2011
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### 26. Government grants and subsidies (continued)

#### Finance Management Grant(FMG)

Current-year receipts	1 450 000	1 200 000
Conditions met - transferred to revenue	(1 450 000)	(1 200 000)
	-	-

Conditions still to be met - remain liabilities (see note 22).

The grant is meant for assisting municipalities in the improvement of system related transactions.

#### Municipal Systems Improvement Grant (MSIG)

Current-year receipts	790 000	750 000
Conditions met - transferred to revenue	(790 000)	(750 000)
	-	-

Conditions still to be met - remain liabilities (see note 22).

The grant is mainly used for promoting and supporting reforms in the financial management by building capacities in municipalities to implement MFMA and improve progressive financial reporting for municipalities.

No grant was held during the current period.

#### Municipal Infrastructure Grant (MIG)

Current-year receipts	18 210 000	12 718 000
Conditions met - transferred to revenue	(18 210 000)	(12 718 000)
	-	-

Conditions still to be met - remain liabilities (see note 22).

The grant was used to fund infrastructure related projects (mainly as part of the service delivery). Capitalised projects funded by this grant are included in property, plant and equipment whilst the unspent portion of the grant is included in current liabilities.

MIG grant delayed during the current year was R4 390 000. This was as a result of the submitted plan not meeting the standards of MIG funding. The grant was due to be received in November 2011. A revised plan was submitted and the grant subsequently received March 2012.



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

	2012	2011
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### 26. Government grants and subsidies (continued)

#### Department of Minerals and Energy Affairs (DME)

Current-year receipts	594 000	-
Conditions met - transferred to revenue	(594 000)	-
	-	-

Conditions still to be met - remain liabilities (see note 22).

The grant was utilised for the electrification of newly developed areas.

No grant was withheld during the year.

#### Development Bank of Southern Africa

Current-year receipts	-	2 114 554
Conditions met - transferred to revenue	-	(2 114 554)
	-	-

Conditions still to be met - remain liabilities (see note 22).

This was DBSA's contribution towards funding of the municipality's valuation roll, which was implemented on 1 July 2009.

#### Road Transport Grant

Balance unspent at beginning of year	1 994 996	-
Current-year receipts	-	2 500 000
Conditions met - transferred to revenue	(500 566)	(505 004)
	<b>1 494 430</b>	<b>1 994 996</b>

Conditions still to be met - remain liabilities (see note 22).

The grant was used to finance the upgrading and construction of the street network within the municipal boundaries.

No grant was withheld during the year.

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

	2012	2011
<b>26. Government grants and subsidies (continued)</b>		
<b>Department of Water Affairs (DWA)</b>		
Current-year receipts	5 600 000	-
Conditions met - transferred to revenue	(4 832 295)	-
	<b>767 705</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 22).		
The grant is used for the provision of water and sanitation services to the community.		
<b>Expanded Public Works Programme (EPWP)</b>		
Current-year receipts	389 000	-
Conditions met - transferred to revenue	(389 000)	-
	<b>-</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 22).		
The grant is for the improvement of public infrastructure.		
<b>27. Public contributions and donations</b>		
Public contributions and donations	20 000	166 963
Conditions still to be met - remain liabilities (see note 22)		
The current year's donation was made by Petra Diamonds for the Mayor's inauguration ceremony. The donation had no conditions attached to it.		

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

	2012	2011
<b>28. Other income</b>		
Photocopies	2 935	3 062
Refuse bags	114	-
Tax certificates	14 923	10 589
Test meters	202	105
Trading licences	3 268	5 054
Other Income	542 305	83 126
Sale of erven	-	8 250
Building plan fees	4 119	4 016
Agreements	17 939	7 594
Court fines	77 740	110 325
Grave plots	34 083	26 898
Call out fees	-	184
Pound fees	-	153
Reconnection fees	104 745	121 990
	<b>802 373</b>	<b>381 346</b>
<b>29. Investment and interest revenue</b>		
<b>Dividend revenue</b>		
Unlisted financial assets - Local	5 247	1 723
<b>Interest revenue</b>		
Interest received on investments	1 003 127	522 966
Interest received - Eskom and SARS	74 726	80 528
Interest charged on trade and other receivables	1 923 149	1 343 583
	<b>3 001 002</b>	<b>1 947 077</b>
	<b>3 006 249</b>	<b>1 948 800</b>
<b>30. Operating surplus (deficit)</b>		
Operating surplus (deficit) for the year is stated after accounting for the following:		
Impairment on trade and other receivables	7 056 286	9 464 793
Depreciation on property, plant and equipment	24 785 753	21 835 294
Employee costs	27 615 508	23 862 458

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

	2012	2011
<b>31. Employee related costs</b>		
Basic	13 547 311	11 036 197
Special Bonuses	137 757	224 451
Medical aid - company contributions	808 231	576 045
UIF contributions	150 919	143 152
SDL	218 442	31 156
Leave pay provision charge	379 891	744 335
Post-employment benefits - Pension - Defined contribution plan	1 861 194	1 644 013
Travel, motor car, accommodation, subsistence and other allowances	1 560 960	659 934
Overtime payments	1 725 167	1 398 165
Long-service awards	154 475	1 542 674
13th Cheques and other bonuses	910 671	935 167
Housing benefits and allowances	18 596	13 532
Industrial Council	6 580	6 275
Actuarial gains and losses	(588 915)	-
Defined benefit -Current Service Cost	1 114 000	736 000
	<b>22 005 279</b>	<b>19 691 096</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	741 981	569 652
Car Allowance	108 893	97 383
Acting Allowance	-	78 661
Back pay	-	16 078
Other	98 677	17 008
	<b>949 551</b>	<b>778 782</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	454 697	208 565
Car Allowance	164 566	76 500
Annuity	36 000	18 000
Back pay	-	12 295
Acting allowance	-	156 784
Other	74 178	49 203
	<b>729 441</b>	<b>521 347</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

	2012	2011
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### 31. Employee related costs (continued)

#### Remuneration of Technical Services Manager

Annual Remuneration	250 495	39 729
Car Allowance	60 000	8 853
Acting allowance	145 377	346 088
Back pay	-	12 295
Other	17 361	11 009
	<b>473 233</b>	<b>417 974</b>

The current Technical Services Manager was appointed on 13 January 2012.

#### Remuneration of Corporate Services Manager

Annual Remuneration	237 427	-
Car Allowance	40 000	-
Contributions to UIF, Medical and Pension Funds	12 535	-
Acting allowance	166 624	354 530
Back pay	-	12 295
Other	41 920	4 428
	<b>498 506</b>	<b>371 253</b>

The current Corporate Services Manager was appointed on 23 January 2012

### 32. Remuneration of councillors

Executive Mayor/Speaker	596 538	469 880
Councillors	2 362 960	1 612 126
	<b>2 959 498</b>	<b>2 082 006</b>

#### In-kind benefits

The Executive Mayor/Speaker is full-time and she is provided with an office and secretarial support at the cost of the Council. She also has a driver, who acts as her bodyguard.

### 33. Depreciation and amortisation

Property, plant and equipment	24 785 753	21 835 294
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### 34. Impairment of receivables

<b>Impairments</b>		
Change in provision for receivables	7 056 286	9 464 793

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

	2012	2011
<b>35. Finance costs</b>		
Unwound interest on landfill site	2 896 855	2 586 478
Non-current borrowings	56 802	57 438
Trade and other payables	76 021	38 753
Finance leases	95 455	277 866
Bank	-	15 095
Long service awards	104 000	-
Post retirement medical fund	1 154 000	1 022 000
	<b>4 383 133</b>	<b>3 997 630</b>
<b>36. Bulk purchases</b>		
Electricity	13 969 328	12 594 644
Water	3 000 037	1 978 075
	<b>16 969 365</b>	<b>14 572 719</b>

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

	2012	2011
<b>37. Other expenses</b>		
Advertising	177 783	123 227
Auditors remuneration	2 583 334	2 033 975
Bank charges	131 156	85 684
Consulting and professional fees	3 989 313	3 038 378
Chemicals	2 697 031	1 335 959
Conferences and delegations	220 033	202 890
Connection charges	1 000	-
Administration costs	90 342	-
Consumables	28 559	-
Fuel and oil	1 082 915	959 203
Insurance Short Term	451 536	307 151
License fees	414 423	395 098
Loss of cash	2 570	207 862
Municipal Services	2 238 274	851 052
Other expenses	1 696 686	920 222
Postage and courier	61 724	50 171
Printing and stationery	368 891	296 747
Rental of Equipment	33 664	413 724
SMME projects	979 162	2 634 622
Special Events	370 496	210 460
Subscriptions and membership fees	624 432	33 003
Telephone and fax	1 376 627	1 019 160
Travel and subsistence	1 365 475	991 941
Uniforms	205 419	131 913
Valuations	-	7 992
	<b>21 190 845</b>	<b>16 250 434</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

	2012	2011
<b>38. Cash generated from operations</b>		
Surplus (deficit)	1 026 431	(4 427 401)
<b>Adjustments for:</b>		
Depreciation and amortisation	24 785 753	21 835 294
Finance costs - Finance leases	95 455	277 866
Impairment deficit	7 056 286	9 464 793
Debt impairment	-	461 203
Movements in retirement benefit assets and liabilities	1 037 000	1 474 000
Movements in provisions	3 199 855	20 794 398
Public contributions and donations	-	(42 360)
<b>Changes in working capital:</b>		
Inventories	728 831	(1 912 581)
Other receivables from exchange transactions	(7 163 555)	249 390
Other receivables from non-exchange transactions	(1 510 847)	12 880 923
Consumer debtors	(107 366)	2 034 198
Trade and other payables from exchange transactions	2 274 187	(18 866 269)
VAT	1 636 217	(2 515 687)
Conditional grants and receipts	267 139	1 994 996
Consumer deposits	629 892	73 875
Other non-cash items	(89 523)	(19 161 559)
	<b>33 865 755</b>	<b>24 615 079</b>

## 39. Capital Commitments

### Approved and contracted for

• Infrastructure	10 729 043	6 634 494
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### Approved but not yet contracted for

• Property, plant and equipment	1 788 000	696 000
• Infrastructure	28 823 414	12 169 506
	<b>30 611 414</b>	<b>12 865 506</b>

This committed expenditure relates to property and will be financed by government grants and funds internally generated.

### This expenditure will be finance from

Government grants	39 552 457	18 804 000
Own resources	1 788 000	696 000
	<b>41 340 457</b>	<b>19 500 000</b>



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

	2012	2011
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### 40. Contingencies

#### Accumulated Leave

Accumulated leave (48-72days)	868 127	86 925
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The amount refers to leave days in excess of 48 days up to a maximum of 72 days that accrued to employees. According to South African Local Bargaining Main Collective Agreement, leave days in excess of 48 can be taken when the opportunity is afforded, be encashed if the employee is unable to take the leave as a result of operational requirements or then forfeit the leave if it is not taken or encashed. Based on this, there is uncertainty whether the employee will take leave or encash the days. Therefore the municipality does not have a present obligation.

#### Disposal Sites

##### Disposal sites

Disposal sites	15 000 000	-
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Section 20 (b) of the National Environmental Management: Waste Act (2008) states that no person may commence or conduct a waste management activity except in accordance with:

- the requirements or standards determined in terms of section 19 (3) for that entity or
- a waste management licence issued in respect of that activity, if a licence is required.

The municipality operates five disposal sites of which three (Koffiefontein, Luckhoff and Oppermansgronde) do not meet the registration and operating requirements as prescribed by the National Environmental Management: Waste Act (2008). These sites are unlicensed and as such there is a possibility that a penalty may be imposed on the municipality in accordance with section 68 (1) of this Act.

### 41. Related parties

During the year there were no related party transactions. The municipality has various processes in place to identify and note any related party transactions. These range from disclosure on the bid documents to maintenance of a conflict of interest register. For councilors and senior managers, this is kept in the office of the Municipal Manager.

### 42. Prior period errors

The correction of the error(s) resulted in the following adjustments:

**Notes to the Annual Financial Statements**

2012 2011

**42. Prior period errors (continued)**

**Statement of financial position**

Inventory	-	17 115
Other receivables from exchange transactions	-	93 820
VAT Receivable	-	2 646 979
Investment property	-	(9 854 800)
Property, plant and equipment	-	563 537 194
Intangible assets	-	390 567
Finance Lease Obligation (Current liability)	-	136 802
Provisions -current liability	-	(136 000)
Provisions - non current liability	-	(19 539 692)
Interest bearing liability - current liability	-	(313 235)
Interest bearing liability -non current	-	(435 771)
Donations and public contributions	-	33 831
Accumulated Surplus	-	(536 576 808)

- **Inventory** -This relates to water inventory in the pipe network computed after the unbundling of infrastructure assets.
- **Other receivables from exchange transactions** - The amount relates to prepayments for water purchases and electricity deposits misallocated in the prior year.
- **VAT Receivable** - This relates to the VAT component on the initial recognition of the provision for landfill sites.
- **Investment Property** - In terms of the GRAP Framework, there are no assets meeting the investment property criteria. After the unbundling of infrastructure assets and land and buildings, the amounts were recognised as property, plant and equipment.
- **Property, Plant and Equipment** - This mainly relates to the unbundling of infrastructure assets and reclassification of investment property, at depreciated replacement cost.
- **Intangible Assets** - This mainly relates to the recognition of the accounting system at fair value, as compared to the previous amounts which were at provisional amounts of R1.
- **Provisions (Non-current and Current Liabilities)** - The prior year restatement was necessitated by the recognition of the provision for landfill site rehabilitation and an adjustment to the amount previously recognised as long service award.
- **Interest bearing liability and Finance Lease(Non-current and current liabilities)** - This related to the correction of the loan embedded in the finance lease. The amount was erroneously disclosed as a finance lease.
- **Donations and Public Contributions** - This relates the correction of the amount at which the Mayor's vehicle (donated by the Provincial Government Department) was recognised.
- **Accumulated Surplus** - This is mainly caused by the net corrections recognised in the Statement of Financial Performance and Position. Most of these corrections relates to the unbundling of infrastructure, which was done retrospectively.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

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	2012	2011
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### 42. Prior period errors (continued)

#### Statement of Financial Performance

Public contributions and donations	-	(109 444)
Employee related costs	-	100 617
Depreciation and amortisation	-	9 945 157
Finance costs	-	2 647 074
Bulk purchases	-	(138 444)
Other expenses	-	530 211

- **Public Contributions and Donations** - This relates to the correction of the value of the Mayor's vehicle donated by the Provincial Government.
- **Depreciation and Amortisation** - This mainly relates to the increase in the asset values as a result of the unbundling of infrastructure assets and the subsequent valuation of the related assets at depreciated replacement cost.
- **Finance Costs** - It mainly relates to the unwinding of interest on the provision for landfill site rehabilitation.
- **Bulk Purchases** - This mainly relates to prior year prepayment erroneously recognised as expenses in the prior period.
- **Other Expenses** - The restatement related to prior year invoices omitted in the prior periods.
- **Employee Costs** - This relates the former Mayor's back pay

### 43. Comparative figures

Certain comparative figures have been reclassified/restated.

### 44. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Council audit committee oversees the monitoring of compliance and oversight of the municipality's risk management framework. The Council a Risk management Committee which is responsible for developing and monitoring the municipality's risk management policies.

The shared audit committee oversees the monitoring of compliance with the municipality's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the municipality. The audit committee is assisted in its oversight role by the municipality's internal audit unit.

**Notes to the Annual Financial Statements**

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**44. Risk management (continued)****Liquidity risk**

Ultimate responsibility for liquidity risk management rests with the Council and the finance committee which has built an appropriate liquidity risk management framework for the management of the Municipality's short, medium and long-term funding and liquidity management requirements. The Municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Municipality also gets funding from the National and provincial governments which help to ease the pressure of any liquidity crisis.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared on a monthly basis to monitor cash resources of the municipality.

**Credit risk**

Credit risk consists of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. The municipality cannot, however, limit the rate at which it can offer services to its stakeholders as it has a constitutional mandate to offer these services.

Trade receivables are presented net of an allowance for impairment.

In terms of the Credit Control and Debt Collection Policy, customers whose accounts become in arrears, collection of such accounts should be done through levying penalty charges, issuing demands for payment, restricting service and handling customers over for collection. However, during the current year proper procedures were not enforced to collect amounts amounts owing to the Municipality. Management is in the process of establishing procedures to be implemented by the credit control function to improve debt collection.

**Price Risk**

The municipality is exposed to equity price risks arising from equity investments, classified on the statement of financial position as available-for-sale. Equity investments are held for strategic rather than trading purposes. The Municipality does not actively trade these investments. The only shares held are the Senwes shares.

**45. Events after the reporting date**

- Indigent balances amounting to R3,494,786.46 were approved for write off by Council at a meeting held on 30 August 2012. The balances were as at 27 August 2012.
- The Municipal Manager's contract expired just before year end and was extended for a further three months.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

	2012	2011
<b>46. Unauthorised expenditure</b>		
Opening balance	9 320 075	4 442 255
Unauthorised expenditure - current year	33 109 579	4 877 820
Amounts condoned or written off by Council	(4 877 820)	-
	<b>37 551 834</b>	<b>9 320 075</b>

Unauthorised expenditure of R10,675,643.03 was condoned at a Council meeting held on 30 August 2012

The unauthorised expenditure of R4,877,820 relates to prior year. It was condoned at the Council meeting held 26 August 2011.

Departments that exceed their budgets were as follows:

### Unauthorised expenditure by department

Planning and Development	-	757 772
Electricity	-	4 120 048
Budget and Treasury Office	32 362 238	-
Townhall and offices	647 675	-
Corporate Services Management	99 666	-
	<b>33 109 579</b>	<b>4 877 820</b>

### 47. Fruitless and wasteful expenditure

Opening balance	854 809	678 497
Fruitless and wasteful expenditure - current year	319 486	176 312
Amounts condoned or written off by Council	(656 665)	-
	<b>517 630</b>	<b>854 809</b>

Current year fruitless and wasteful expenditure relates to:

- Settlement amounts on two lost cases where the employees were dismissed unprocedurally of R17,040
- Interest paid of R83,322.24 on late payments to Eskom, Telkom
- Fines of R1,377
- Settlement of damaged hired equipment of R4,569
- Lease payments relating to five bioguards of R213,176.73, which were not utilised for the entire financial year.

The current year fruitless and wasteful expenditure of R319,485.57 was condoned by Council at a meeting held on 30 August 2012.

The fruitless and wasteful expenditure of R656,665 relates to prior year and was condoned at a Council meeting held 26 August 2011.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

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<b>48. Irregular expenditure</b>		
Opening balance	37 653 805	14 347 372
Irregular Expenditure - current year	4 951 563	23 306 433
Amounts condoned or written off by Council	(6 207 523)	-
	<b>36 397 845</b>	<b>37 653 805</b>

### Details of irregular expenditure condoned or written off by Council

-

Irregular expenditure of R4,951,562.81 was condoned by Council at a meeting held on 30 August 2012.

## 49. Additional disclosure in terms of Municipal Finance Management Act

### Contributions to organised local government

Current year subscription/ fee	6 580	6 275
Amount paid - current year	(6 580)	(6 275)
	-	-

### Water Losses

The municipality purchases water from the local water service authority and sells to its residents.

The water losses incurred for the current year are as follows:

Pumped for the year (kilolitres)	1 505 068	1 530 563
Sales for the year (kilolitres)	(1 098 852)	(1 090 938)
<b>Losses for the year (kilolitres)</b>	<b>406 216</b>	<b>439 625</b>

The water losses are attributable to illegal connections and burst pipes.

The municipality has implemented processes to attend to burst pipes to reduce the amount of water lost through such means.

### Electricity Losses

The municipality purchases electricity from Eskom and sells to its residents.

Electricity losses incurred during the current year are as follows:

Purchased during the year (kilowatt hours)	17 023 900	17 925 098
Sold during the year (kilowatt hours)	(13 116 027)	(13 237 175)
<b>Losses for the year (kilowatt hours)</b>	<b>3 907 873</b>	<b>4 687 923</b>

The resultant losses are attributable to illegal connections.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

	2012	2011
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### 49. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Material losses through criminal conduct

##### Prepaid Electricity

Opening balance	270 687	62 825
Loss - current year	2 570	207 862
	<b>273 257</b>	<b>270 687</b>

The fraudulent activities relating to prepaid electricity sales was discovered by management in the prior period. It could not be determined when these fraudulent activities could have started occurring. The matter was reported to the South African Police Services and is still under investigation.

The activities are suspected to have occurred on purchases of some customers as follows:

- A customer purchases prepaid electricity. The electricity coupon is issued to the customer. The transaction gets deleted from the system but coupon remains valid. The sale is not recorded on the end of day report (cash collected report) and thus the report would be reconciled to hard cash. This resulted in the deletions going undetected for a prolonged period.

Management implemented access controls on the sales system in July 2011 and as such the current year losses relate to the month of July 2011 only.

##### Other Income Receipts

Loss - current year	5 222	-
Recovered - current year	(5 222)	-
	<b>-</b>	<b>-</b>

The fraudulent activities relating to receipts was discovered by management during the year. The matter employee acknowledged to defrauding the municipality and paid the amount. The matter was reported to South African Police Services.

The fraudulent activities occurred as follows:

- Certain customers paid cash at the counter and were issued with manual receipts. The manual receipt would then be captured on the system. However, instead of capturing and surrendering the full amounts collected from the customers, part of the receipt would be captured and part money surrendered for banking. The amount surrendered would agree to the system receipts.

##### Audit fees

Opening balance	20 614	22 046
Current year subscription / fee	2 535 046	2 033 975
Amount paid - current year	(2 668 615)	(2 035 407)
	<b>(112 955)</b>	<b>20 614</b>

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

	2012	2011
<b>49. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>PAYE and UIF</b>		
Current year subscription / fee	2 310 450	2 131 022
Amount paid - current year	(2 310 450)	(2 131 022)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	3 289 252	2 305 576
Amount paid - current year	(3 289 252)	(2 305 576)
	-	-



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

2012 2011

### 49. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor K Nel	3 172	2 653	5 825
Councillor M.U. Jantjies	321	693	1 014
Councillor T.M. Gomojong	1 335	1 954	3 289
	<b>4 828</b>	<b>5 300</b>	<b>10 128</b>

30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor K. Nel	83	-	83
Councillor E.J. Jantjies	309	-	309
Councillor P.M. Dibe	447	9	456
Councillor P. Louw	514	-	514
Councillor T.M. Gomojong	967	-	967
Councillor Z.W. Toehand	277	1 154	1 431
	<b>2 597</b>	<b>1 163</b>	<b>3 760</b>

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2012	Highest outstanding amount	Aging (in days)
Councillor T.M. Gomojong	1 013	180
Councillor M.U. Jantjies	646	150
Councillor K.W. Nel	2 653	120
	<b>4 312</b>	<b>450</b>

30 June 2011	Highest outstanding amount	Aging (in days)
Councillor Z.W. Toehand	941	-

## Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

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	2012	2011
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#### 50. Donations and public contributions

This represents the carrying amount of assets donated by various stakeholders i.e. not funded by own income

Opening Balance	130 128	138 156
Current Year charge- reversal	-	57 519
Depreciation charge-reversal	-	(31 716)
Write-off to accumulated surplus (GRAP adjustments)	-	(163 959)
Additions and write-back	-	152 560
Depreciation charge	(21 677)	(22 432)
	<b>108 451</b>	<b>130 128</b>

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#### 51. Deviation from supply chain management regulations

In terms of section 36(1) of the Supply Chain Management Regulations, the accounting officer may dispense with the official procurement process in the following instances:

- In an emergency
- If such goods or services were produced or available from a single provider only
- For acquisition of special works of art or historical objects where specifications were difficult to complete
- Acquisition of animals for zoos and/or nature and game reserves
- In any other exceptional cases where it is impractical or impossible to follow the official procurement processes

Deviation from the official procurement process during the financial year were approved in terms of the delegations as stipulated in the Supply Chain Management Policy and amounted to the following:

##### Deviation from normal procurement processes (SCM Policy)

DWA funds	4 832 295	-
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The municipality deviated from normal procurement policies for the use of the above funds due to an emergency situation in Bolokanang in Petrusburg

**Notes to the Annual Financial Statements**

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	2012	2011
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**52. Key Assumptions and estimates**

Long Service Awards Provision

The key assumptions used in estimating the long service awards provision are:

- To each beneficiary, a mortality rate of an individual three years younger than that beneficiary was assigned.
- The percentage salary inflation rate will be 1.26%.

It was also assumed that the collective bargaining will remain the same. For the carrying amount of this provision refer to note 18.

Landfill Site

The key assumptions made by management in estimating the provision for land rehabilitation are:

- That the estimate was based on the worst case scenario in that the landfill site do not comply to the minimum requirements should the geotechnical analysis confirm otherwise the provision should significantly change, and;
- That the geotechnical analysis is highly dependent on the risk factor analysis in the case of contamination.

The carrying amount as disclosed in note 18.

Post Retirement Benefits

The key assumptions used for the estimation of post retirement benefit obligation refer note 7. Refer to same note for the carrying amount of the post retirement benefit.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

2012 2011

### 53. Statement of comparative and actual information

#### 2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual ou as % of o budg
<b>Financial Performance</b>							
Property rates	5 106 056	5 106 000	5 106 000	5 350 022	(244 022)	105 %	
Service charges	34 054 000	34 054 000	34 054 000	24 542 385	9 511 615	72 %	
Investment and interest revenue	900 000	1 000 000	1 000 000	3 006 249	(2 006 249)	301 %	
Transfers recognised - operational	48 235 000	48 235 000	48 235 000	55 098 112	(6 863 112)	114 %	
Other own revenue	582 000	582 000	582 000	1 156 936	(574 936)	199 %	
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>88 877 056</b>	<b>88 977 000</b>	<b>88 977 000</b>	<b>89 153 704</b>	<b>(176 704)</b>	<b>100 %</b>	
Employee related costs	(23 693 000)	(26 475 000)	(26 475 000)	(24 656 010)	(1 818 990)	93 %	
Remuneration of councillors	(2 795 000)	(3 228 000)	(3 228 000)	(2 959 498)	(268 502)	92 %	
Depreciation and asset impairment	(10 065 000)	(6 639 000)	(6 639 000)	(31 842 039)	25 203 039	480 %	
Finance charges	(62 000)	(63 000)	(63 000)	(4 383 133)	4 320 133	6 957 %	7
Materials and bulk purchases	(16 396 000)	(19 800 000)	(19 800 000)	(16 969 365)	(2 830 635)	86 %	
Other expenditure	(35 594 000)	(31 796 000)	(31 796 000)	(25 547 228)	(6 248 772)	80 %	
<b>Total expenditure</b>	<b>(88 605 000)</b>	<b>(88 001 000)</b>	<b>(88 001 000)</b>	<b>(106 357 273)</b>	<b>18 356 273</b>	<b>121 %</b>	
<b>Surplus/(Deficit)</b>	<b>272 056</b>	<b>976 000</b>	<b>976 000</b>	<b>(17 203 569)</b>	<b>18 179 569</b>	<b>(1 763)%</b>	<b>(6</b>
Transfers recognised - capital	(18 804 000)	(23 804 000)	(23 804 000)	18 210 000	(42 014 000)	(76)%	
Contributions recognised - capital and contributed assets	-	-	-	20 000	(20 000)	- %	
<b>Surplus/(Deficit) for the year</b>	<b>(18 531 944)</b>	<b>(22 828 000)</b>	<b>(22 828 000)</b>	<b>1 026 431</b>	<b>(23 854 431)</b>	<b>(4)%</b>	

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

2012 2011

### 53. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Capital expenditure and funds sources</b>							
<b>Sources of capital funds</b>							
Transfers recognised - capital	18 804 000	23 804 000	23 804 000	-	23 804 000	- %	

#### Service Charges

The budget includes free basic services of which the funding is in equitable share. The free basic services for the current year amounted to R11,437,000. Therefore the free basic was budgeted in service charges as well as in equitable share.

#### Investment and interest revenue

More investments were done during the year than budgeted.

#### Transfers recognised-operational

Department of Water Affairs income recognised is in operational grants while in the budget it has been included in capital grants.

#### Employee related costs

Vacant posts in Finance and Human Resources department were not filled during the year as budgeted.

#### Remuneration of Councilors

Budget includes medical aid contributions of which some councilors are not on medical aid.

#### Finance Charges

Budget is based on expected finance charges from suppliers. Actual includes interest on finance leases and retirement benefit obligation.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

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**Letsemeng Local Municipality**  
**Appendix A**

**Schedule of external loans as at 30 June 2010**

<b>Loan Number</b>	<b>Redeemable</b>	<b>Balance at 30 June 2011</b>	<b>Received during the period</b>	<b>Redeemed written off during the period</b>	<b>Balance at 30 June 2012</b>	<b>Carrying Value of Property, Plant &amp; Equip Rand</b>	<b>Other Costs in accordance with the MFMA Rand</b>
		<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>		
<b>Loan Stock</b>		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
<b>Structured loans</b>		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
<b>Funding facility</b>		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
<b>Development Bank of South Africa</b>		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-

Letsemeng Local Municipality  
Appendix A

Schedule of external loans as at 30 June 2010

Loan Number	Redeemable	Balance at 30 June 2011	Received during the period	Redeemed written off during the period	Balance at 30 June 2012	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
		-	-	-	-	-	-
		-	-	-	-	-	-
<b>Bonds</b>							
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
<b>Other loans</b>							
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
<b>Lease liability</b>							
FINTECH		907 609	-	438 069	469 540	-	-
MULTITECH		802 725	-	327 055	475 670	-	-
BYTES		-	82 795	-	82 795	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		<b>1 710 334</b>	<b>82 795</b>	<b>765 124</b>	<b>1 028 005</b>	-	-
<b>Annuity loans</b>							
MULTITECH		749 006	-	313 235	435 771	-	-
		-	-	-	-	-	-



**Letsemeng Local Municipality**  
**Appendix A**

**Schedule of external loans as at 30 June 2010**

Loan Number	Redeemable	Balance at 30 June 2011	Received during the period	Redeemed written off during the period	Balance at 30 June 2012	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		<b>749 006</b>	-	<b>313 235</b>	<b>435 771</b>	-	-
Government loans		-	-	-	-	-	-
<b>Total external loans</b>							
Loan Stock		-	-	-	-	-	-
Structured loans		-	-	-	-	-	-
Funding facility		-	-	-	-	-	-
Development Bank of South Africa		-	-	-	-	-	-
Bonds		-	-	-	-	-	-
Other loans		-	-	-	-	-	-
Lease liability		1 710 334	82 795	765 124	1 028 005	-	-
Annuity loans		749 006	-	313 235	435 771	-	-
Government loans		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		<b>2 459 340</b>	<b>82 795</b>	<b>1 078 359</b>	<b>1 463 776</b>	-	-

**Letsemeng Local Municipality**  
**Letsemeng Local Municipality**  
**Appendix B**

**Analysis of property, plant and equipment as at 30 June 2012**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Under construction Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>														
Land (Separate for AFS purposes)	122 319 907	-	-	-	-	-	122 319 907	-	-	-	-	-	-	122 319 907
Landfill Sites (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings (Separate for AFS purposes)	47 434 491	2 518 046	-	-	-	-	49 952 537	(23 240 647)	-	-	(1 826 765)	-	(25 067 412)	24 885 125
	<b>169 754 398</b>	<b>2 518 046</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>172 272 444</b>	<b>(23 240 647)</b>	<b>-</b>	<b>-</b>	<b>(1 826 765)</b>	<b>-</b>	<b>(25 067 412)</b>	<b>147 205 032</b>
<b>Infrastructure</b>														
Roads, Pavements & Bridges	489 172 683	5 204 219	-	-	-	3 382 046	497 758 948	(134 346 034)	-	-	(11 856 430)	-	(146 202 464)	351 556 484
Storm water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Generation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity Network	32 868 239	525 816	-	-	-	74 376	33 468 431	(10 492 545)	-	-	(707 166)	-	(11 199 711)	22 268 720
Street lighting	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dams & Reservoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Network	153 410 998	5 768 267	-	-	-	-	159 179 265	(39 869 695)	-	-	(4 759 981)	-	(44 629 676)	114 549 589
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sewerage Network	78 945 088	316 570	-	-	-	-	79 261 658	(17 074 363)	-	-	(2 124 664)	-	(19 199 027)	60 062 631
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Solid Waste Disposal	18 907 000	-	-	-	-	-	18 907 000	(1 134 420)	-	-	(756 280)	-	(1 890 700)	17 016 300
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (fibre optic, WIFI infrastructure)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other 1	-	-	-	-	-	-	-	-	-	-	-	-	(223 021 576)	(223 021 576)
	<b>773 304 008</b>	<b>11 814 872</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3 456 422</b>	<b>788 575 302</b>	<b>(202 917 057)</b>	<b>-</b>	<b>-</b>	<b>(20 204 521)</b>	<b>-</b>	<b>(446 143 154)</b>	<b>342 432 148</b>
<b>Community Assets</b>														
Parks & gardens	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sportsfields and stadium	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Swimming pools	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community halls	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Libraries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreational facilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Clinics	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Museums & art galleries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Social rental housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire, safety & emergency	33 868	-	-	-	-	-	33 868	(4 321)	-	-	(6 096)	-	(10 417)	23 451
Security and policing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>33 868</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33 868</b>	<b>(4 321)</b>	<b>-</b>	<b>-</b>	<b>(6 096)</b>	<b>-</b>	<b>(10 417)</b>	<b>23 451</b>

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**Appendix B**

Analysis of property, plant and equipment as at 30 June 2012	
Cost/Revaluation	Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Under construction Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Heritage assets</b>														
Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Specialised vehicles</b>														
Refuse	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conservancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ambulances	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Other assets</b>														
General vehicles	3 037 823	21 123	-	-	-	-	3 058 946	(397 901)	-	-	(148 648)	-	(546 549)	2 512 397
Plant & equipment	1 097 272	220 300	-	-	-	-	1 317 572	(236 378)	-	-	(153 550)	-	(389 928)	927 644
Computer Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Computer Software (part of computer equipment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Fittings	2 205 666	210 197	-	-	-	-	2 415 863	(437 481)	-	-	(300 601)	-	(738 082)	1 677 781
Office Equipment	2 949 433	233 465	(8 599)	-	-	-	3 174 299	(818 836)	775	-	(788 499)	-	(1 606 560)	1 567 739
Office Equipment - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Abattoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Markets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Airports	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security measures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other land	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Work in progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus Assets - (Investment or Inventory)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	9 290 194	685 085	(8 599)	-	-	-	9 966 680	(1 890 596)	775	-	(1 391 298)	-	(3 281 119)	6 685 566

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**Appendix B**

Analysis of property, plant and equipment as at 30 June 2012	
Cost/Revaluation	Accumulated depreciation

	Opening Balance Rand	Additions  Rand	Disposals  Rand	Transfers  Rand	Revaluations  Rand	Under construction  Rand	Closing Balance Rand	Opening Balance Rand	Disposals  Rand	Transfers  Rand	Depreciation  Rand	Impairment loss  Rand	Closing Balance Rand	Carrying value Rand
<b>Total property plant and equipment</b>														
Land and buildings	169 754 398	2 518 046	-	-	-	-	172 272 444	(23 240 647)	-	-	(1 826 765)	-	(25 067 412)	147 205 032
Infrastructure	773 304 008	11 814 872	-	-	-	3 456 422	788 575 302	(202 917 057)	-	-	(20 204 521)	-	(446 143 154)	342 432 148
Community Assets	33 868	-	-	-	-	-	33 868	(4 321)	-	-	(6 096)	-	(10 417)	23 451
Heritage assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	9 290 194	685 085	(8 599)	-	-	-	9 966 680	(1 890 596)	775	-	(1 391 298)	-	(3 281 119)	6 685 561
	<b>952 382 468</b>	<b>15 018 003</b>	<b>(8 599)</b>	<b>-</b>	<b>-</b>	<b>3 456 422</b>	<b>970 848 294</b>	<b>(228 052 621)</b>	<b>775</b>	<b>-</b>	<b>(23 428 680)</b>	<b>-</b>	<b>(474 502 102)</b>	<b>496 346 192</b>
<b>Agricultural/Biological assets</b>														
Agricultural	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Intangible assets</b>														
Computers - software & programming	-	-	-	-	-	-	-	-	-	-	-	-	(448 038)	-
Other	5 008	22 735	-	-	-	-	27 743	(387)	(3 215)	-	-	-	(3 602)	24 141
	<b>5 008</b>	<b>22 735</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27 743</b>	<b>(387)</b>	<b>(3 215)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(451 640)</b>	<b>24 141</b>
<b>Investment properties</b>														
Investment property	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>														
Land and buildings	169 754 398	2 518 046	-	-	-	-	172 272 444	(23 240 647)	-	-	(1 826 765)	-	(25 067 412)	147 205 032
Infrastructure	773 304 008	11 814 872	-	-	-	3 456 422	788 575 302	(202 917 057)	-	-	(20 204 521)	-	(446 143 154)	342 432 148
Community Assets	33 868	-	-	-	-	-	33 868	(4 321)	-	-	(6 096)	-	(10 417)	23 451
Heritage assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	9 290 194	685 085	(8 599)	-	-	-	9 966 680	(1 890 596)	775	-	(1 391 298)	-	(3 281 119)	6 685 561
Agricultural/Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	5 008	22 735	-	-	-	-	27 743	(387)	(3 215)	-	-	-	(451 640)	24 141
Investment properties	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>952 387 476</b>	<b>15 040 738</b>	<b>(8 599)</b>	<b>-</b>	<b>-</b>	<b>3 456 422</b>	<b>970 876 037</b>	<b>(228 053 008)</b>	<b>(2 440)</b>	<b>-</b>	<b>(23 428 680)</b>	<b>-</b>	<b>(474 953 742)</b>	<b>496 370 333</b>

**Letsemeng Local Municipality**  
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**Appendix B**

Analysis of property, plant and equipment as at 30 June 2011	
Cost/Revaluation	Accumulated depreciation

[illegible]

**Letsemeng Local Municipality**  
**Letsemeng Local Municipality**  
**Appendix B**

Analysis of property, plant and equipment as at 30 June 2011	
Cost/Revaluation	Accumulated depreciation

[illegible]

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**Letsemeng Local Municipality**  
**Appendix B**

Analysis of property, plant and equipment as at 30 June 2011	
Cost/Revaluation	Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Total property plant and equipment</b>														
Land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Heritage assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Agricultural/Biological assets</b>														
Agricultural	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Intangible assets</b>														
Computers - software & programming	-	-	(202 468 000)	-	-	671 661	(201 796 339)	-	(202 468 000)	-	-	-	(405 607 661)	(607 404 000)
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	(202 468 000)	-	-	671 661	(201 796 339)	-	(202 468 000)	-	-	-	(405 607 661)	(607 404 000)
<b>Investment properties</b>														
Investment property	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>														
Land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Heritage assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural/Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	(202 468 000)	-	-	671 661	(201 796 339)	-	(202 468 000)	-	-	-	(405 607 661)	(607 404 000)
Investment properties	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	(202 468 000)	-	-	671 661	(201 796 339)	-	(202 468 000)	-	-	-	(405 607 661)	(607 404 000)

Letsemeng Local Municipality

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Mar	Jun	Sep	Dec	Mar	Mar	Jun	Sep	Dec	Mar	Mar	Jun	Sep	Dec	Mar			
Equitable Share		42 250	-	-	-	-	04 500	-	-	-	-	08 000	-	-	-	-	Yes	No	MIG withheld
MSIG		90 000	-	-	-	-	46 200	-	-	-	-	-	-	-	-	-			
MIG		10 000	-	-	-	-	10 000	-	-	-	-	90 000	-	-	-	-	Yes		Plan did not meet standard
FMG		50 000	-	-	-	-	50 000	-	-	-	-	-	-	-	-	-			
DWAF		00 000	-	-	-	-	32 295	-	-	-	-	-	-	-	-	-			
EPWP		89 000	-	-	-	-	89 000	-	-	-	-	-	-	-	-	-			
DME		94 000	-	-	-	-	94 000	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		75 250	-	-	-	-	25 995	-	-	-	-	98 000	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.